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ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: Shirley V. Lightsey, President
Detroit Retired City Employees Association

FROM: Irvin Corley, Jr., Fiscal Analysis Director IC

DATE: April 26, 2007

RE: 2007-2008 Budget Analysis

Attached is our analysis regarding your budget request for the upcoming 2007-2008 Fiscal Year.

Your Budget Hearing before Council is scheduled for Friday, April 27, 2007, at 2:30 to 3:00 P.M.

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

IC:jgp

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Roger Short, Chief Financial Officer
Pamela Scales, Budget Director
Renee Short, Budget Department
Walter Stampor, Retirement System Manager
Barbara Wise Johnson, Labor Relations
Kandia Milton, Mayor's Office

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Detroit Retired City Employees Association

FY 2007-2008 Budget Analysis by the Fiscal Analysis Division

Detroit Retired City Employees Association (DRCEA) 2007-2008 Improvement Proposal and Costs

In the DRCEA's letter to the Mayor dated February 23, 2007, the association requested funding for two benefit improvements to be applied only to already retired members of the general retirement system. First, a change to the calculation of the minimum pension amount, and second increasing the pension multiplier factor used to calculate pension amounts from 1.63 to 1.70 for each year above 10 years of service for pre-July 1, 1992 retirees.

The DRCEA supplied an actuarial report dated January 31, 2007, from the firm of Gabriel Roeder Smith & Company, that estimates the costs of the proposals.

The actuary report provides the cost breakdown by pension funding group, that is General City, D-DOT, Water, Sewage, and Library. While the DRCEA makes the point that tax dollars would only be required for the General City and D-DOT portion of the benefit increase, the real fact is the remainder of the cost would increase water and sewage rates, and the Library is also supported by dedicated tax dollars.

1. A New Minimum Pension Formula - $3,035,424 estimated first-year cost for all pension funding groups, with $2,610,363 attributable to the General Fund (General City and D-DOT), increase in actuarial accrued liability $34,386,150 on 15-year amortization schedule.

2. Increasing the pension multiplier factor - $1,030,490 first year cost for all pension funding groups, with $866,165 attributable to the General Fund, increase in actuarial accrued liability $11,603,570 on 15-year amortization schedule.

The DRCEA suggests that Council consider an alternative modification of the Minimum Pension calculation increase that would reduce the increased cost by 50%.

New Minimum Pension Formula – Currently the formula to calculate the minimum pension is: "in no case shall the total of the annual Straight Life Pension be less than three hundred sixty dollars ($360.00) times each of the first ten years of service at retirement plus one hundred twenty dollars ($120) for each year of service in excess of ten years."

The retiree association is requesting that the minimum pension be increased to $30 per month for every month of service.

Years of Service at Retirement	Current Minimum Pension	New Minimum Pension	Increase
10	$3,600	$3,600	-0-
15	4,200	5,400	28.57%
20	4,800	7,200	50.0%
25	5,400	9,000	66.6%
30	6,000	10,800	80.0%

The retiree association has suggested a modified increase that is 50% less expensive. In this case every month of service (after the first 120 months or ten years service at $30) would provide a minimum pension of $20 (currently $10), which would result in a straight life pension of $6,000 for a twenty-year employee and $7,200 for a thirty-year employee. The first year cost for this plan would be $1,305,182.

Increasing the Pension Multiplier Factor from 1.63% to 1.7% – In calculating the amount of an employees pension a "pension multiplier factor" is used. This pension multiplier factor is applied to the number of years of service to determine the percentage to be applied to the average final compensation that determines the straight life pension amount. The retiring employee's straight life pension amount may be reduced by the selection of various options that would provide pension payments to a beneficiary upon death of the retiree.

The pension multiplier factor is used in retirement system design to generate a certain pension target as a percentage of the salary the employee was receiving. If the plan target is to allow a pension of 50% of salary after 30 years of service, the pension multiplier factor would be 1.66, (50% / 30 years). For many years, going back to the late 1960's, the pension multiplier factor was 1.4. In 1992 and 1998, as the result of labor negotiations or retirement plan changes, the pension multiplier factor was changed.

The factor schedule in effect is as follows:

General Retirement System Pension Multiplier Factor				
	Retired	Proposed	After July 1, 1992	After July 1, 1998
Years of Service	On or before		On or before	On or before
	June 30, 1992		June 30, 1998	
1 - 10	1.5	1.5	1.5	1.6
11 - 20	1.63	1.7	1.7	1.8
21 - 25	1.63	1.7	1.9	2.0
26 - ^	1.63	1.7	1.9	2.2
30 Years of Service Factor Calculation	47.6%	49.0%	51%	55%

The above chart indicates that the pension multiplier factor is evidence that the pension multiplier factor is open to negotiation. And over a number of years the factor has been changed for future retirees as a result of negotiations, indicating a trade off of other items by the active employees at the time.

The above retirement benefit increase requests are examples of one of the cautions that was raised when pension obligation bond are issued by a municipality. There is a perception that the UAAL goes away when funded by the pension obligation bonds. This is true only at that point in time. Retirement improvements after the sale of the bonds will create additional or new UAAL. And the City will find itself in the position of paying off the debt plus having to fund the additional UAAL created by retirement benefit increases. Of course, the UAAL may also increase if the assumed investment earnings or other assumptions do not match actual results over time.

At a recent Council discussion, a representative of the administration stated that the Police and Fire Retirement System is fully funded, and the General Retirement System is nearly 100% funded based on the latest actuary or financial reports. However, while in the actuarial or financial reports of the retirement system this is true, from the perspective of the City, the systems are not fully funded until the Pension Obligation Certificates (POC) are completely repaid. This was another caution that was presented by the financial advisors at the time the POC proposal was being considered: be careful once the POC's are sold, while the financial position and reports of the retirement system improve, the real debt of the City did not go away.

While there is no question that the retirees provided valuable service to the City, increases in retirement allowances or benefits are in reality a gift. The pension benefit along with salaries, health care and other benefits are a part of the total compensation package agreed to with active employees. The post-retirement payments in place at the time an active employee chooses to retire represent what the employee has agreed to and is entitled to.

Questions for the Retiree Association

1. Has the association ever approached the retirement system trustees requesting funding retiree benefit increases with "excess earnings" in lieu of issuing "13th checks" to retirees? This would at least minimize the affect on the City as it would re-allocate funds the City is not benefiting from currently.

2. Can the retiree association provide the history of issuance of the "13th checks?

3. What is the balance in the general retirement system that has been set aside for future 13th check payments?

IC:jgp:ss

Attachments (3) Valuation Report
Average Pension Received in 2006 by Retirees
Average 2006 Pension by Year Retired

Detroit Retired City Employees Association

Representing Detroit City Retirees Since 1960

P.O. BOX 40713 • Detroit, MI 48240-0713 • 313-927-0491

April 20, 2007

Honorable City Council
City of Detroit
Thirteenth Floor
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, Michigan 48226

Dear City Council Members,

Thank you for setting a time April 27, 2007 to hear the Budget Request of the Detroit Retired City Employees Association, speaking on behalf of the more than 11,000 retired general employees. We are hopeful that you can assist our older members with modest improvements in their pensions by including funds in the 2007-2008 City Budget to finance such improvements.

When employees retire, the amount of their pension is computed using a formula, which factors in years of city service and average final income. Twice in recent years (1992 and 1998) the city improved the factor used in computing pensions, but each of those improvements was applied prospectively to employees retiring after the effective date of the changes. Thus we have three tiers of retirees now, with the oldest group receiving very low pensions compared to new retirees. The DRCEA has for years held the position that this is inequitable. There will be pension increases over the years because salaries are increasing, but the improved formulas have compounded the difference.

Persons who retired in 1980 and earlier receive an average of $8,061 annually, while persons who retired in 2005 receive an average of $28,500 annually. We do not begrudge the new retirees. We are pleased that the pensions are improving. But we cannot allow the older retirees to try and subsist on woefully inadequate pensions.

We are bringing two proposals to you for consideration, one that would adjust the pre 1992 factor and benefit all of the earlier retirees by partially increasing the computation factor toward a goal of ultimately equalizing with the post 1992 retirees. The second proposal would improve pensions for those who currently receive minimum pensions.

Proposal 1. Increase the Pension Factor for all pre 7-1-92 Retirees

As has been done before, one way of addressing the issue is to provide a modest adjustment to the pension factor for the entire oldest tier of retirees, those who retired prior to July 1, 1992. Twice in the past 12 years your Honorable Body has ratcheted up this factor so that eventually equality can be achieved with post July 1, 1992 retirees without a major increase in any one year.

This modest change we are proposing would provide an increase in factor from 1.63 to 1.70 for each year of service above ten. The City's actuary, Gabriel, Roeder and Smith, using a fifteen year amortization basis, has estimated that the net first year tax cost would be $866,165. This would grant increases to about 6,163 retirees who retired before July 1, 1992.

Proposal 2. Increase the Minimum Pensions

There is currently a minimum pension computation, which helps the very lowest paid retirees. It is used in place of what the standard formula computes if it is higher than the amount derived from final average salary times years of service. Virtually all of those currently receiving minimum pensions have been retired over twenty years. The current minimum pension is based on an allowance of $30 per month for the first ten years of service, and $10 per month for all additional months of service. This results in a retiree with ten years of service receiving a minimum straight life pension of $3,600 annually. Minimum straight life pensions for those with twenty years of service are $4,800, while those with thirty years of service receive a minimum of $6,000 annually. We are proposing that the minimum pension be increased for straight life option (or full pension) retirees to $360 for each year of service. This would result in a ten-year service employee still receiving $3,600 per year, while a twenty year employee would receive a minimum straight life pension of $7,200 per year and a thirty year employee would receive a $10,800 pension per year. Proportionate reductions would be made to adjust for those pensions where other options were chosen at the time of retirement.

The City's actuarial firm, Gabriel, Roeder, Smith and Company, has estimated that the first year net tax cost of this proposal would be $2,610,363. We believe that is a reasonable adjustment and a reasonable request. However if the City, due to financial constraints, needed to cut the adjustment from $360 per year for all years to $360 for the first ten years and $240 per year for the years above ten the net tax first year cost would be half, or $1,305,182. These actuarial estimates are also based on a 15 year amortization schedule due to the advanced age of the retirees who would receive this improvement.

Included with our presentation is a graph showing average current pension for retirees based on the year retired which illustrates the great change that has occurred over the past thirty years. We also include a copy of the actuary's estimates of cost for these two benefits proposals.

We thank you for your interest and hope our information will lead to positive action on behalf of those in our membership who receive very low pensions.

Respectfully submitted,

Shirley V. Lightsey

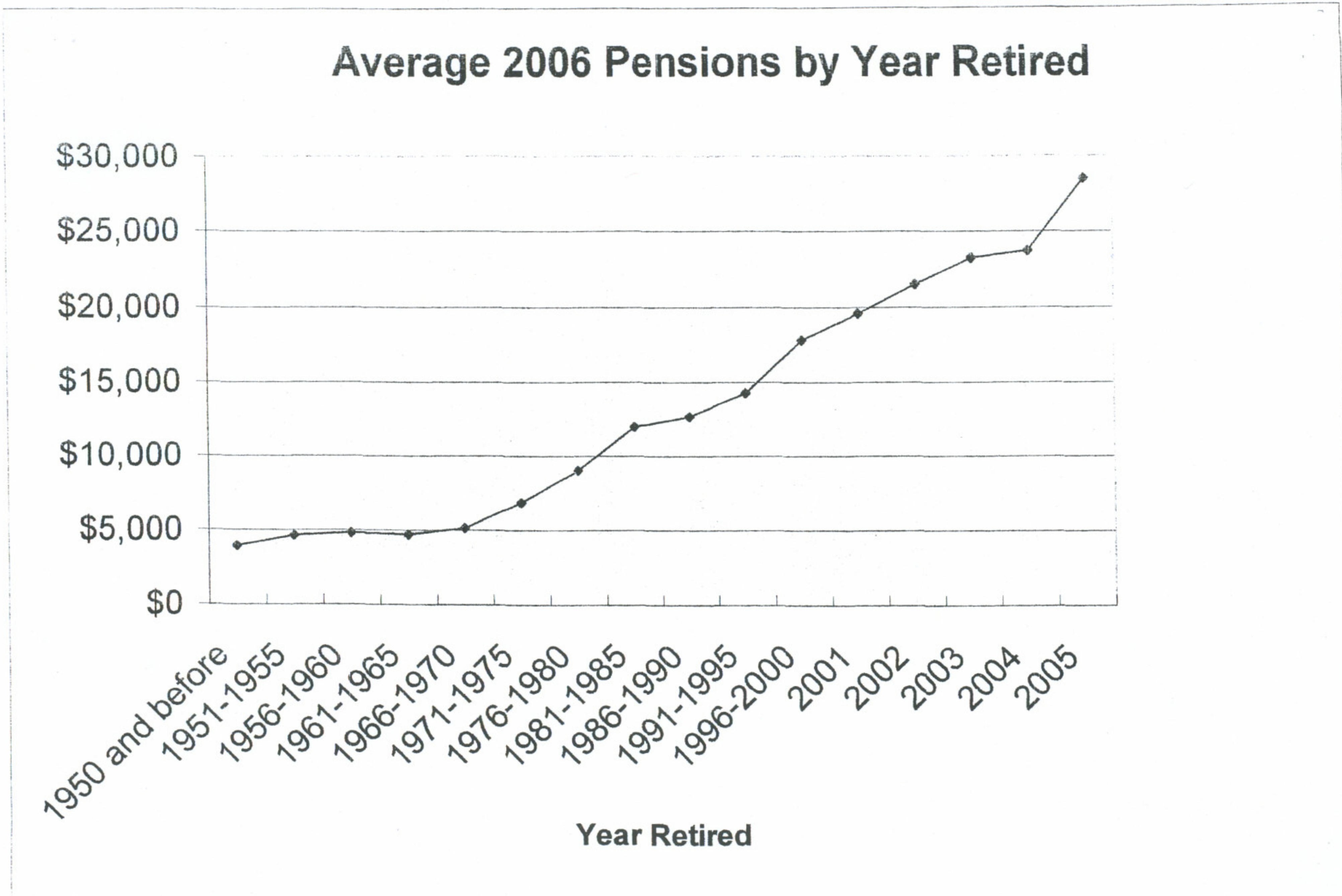
Shirley V. Lightsey
President, DRCEA

c. Budget Director Pam Scales
Council Fiscal Analysis Director Irvin Corley

DRCEA0407Council-a

DETROIT GENERAL RETIREMENT SYSTEM
AVERAGE ANNUAL PENSION RECEIVED IN 2006
BY RETIREES WHO RETIRED IN THE YEARS
INDICATED BELOW
(Source: General Retirement System Annual Report
for the year ended 6-30-05, page 19)

Year of Retirement	Number of Retirees	Avg Years Retired	Average 2006 pension
1950 and before	5	60	$3,948
1951-1955	15	53	$4,632
1956-1960	9	48	$4,812
1961-1965	56	43	$4,704
1966-1970	185	38	$5,136
1971-1975	594	33	$6,840
1976-1980	1,443	28	$9,024
1981-1985	1,894	23	$11,988
1986-1990	1,490	18	$12,684
1991-1995	1,876	13	$14,256
1996-2000	1,896	8	$17,832
2001	353	5	$19,584
2002	449	4	$21,540
2003	400	3	$23,280
2004	468	2	$23,712
2005	263	1	$28,500
Total Retirees	11,396		



Average 2006 Pensions by Year Retired
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
1950 and before
1951-1955
1956-1960
1961-1965
1966-1970
1971-1975
1976-1980
1981-1985
1986-1990
1991-1995
1996-2000
2001
2002
2003
2004
2005
Year Retired

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Memorandum

January 31, 2007

To: Mr. Gerald Fischer, Detroit Retired City Employees Association

From: Norman L. Jones and Judith A. Kermans, Actuaries

Re: Increases for Current Retirees and Beneficiaries

Presented in this memorandum are the results of an actuarial valuation to measure the financial effect of proposed pension increases for retired members of the Detroit General Retirement System.

The valuations were based upon the same data and actuarial assumptions used in the last regular annual actuarial valuation as of June 30, 2005. Increases in liabilities were amortized as level percents of each division's payroll over a period of 15 years.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless noted otherwise. Actuarial assumptions are adopted by the Retirement Board of Trustees. In particular:

- The assumed rate of investment return was 7.9%.
- The valuation method was entry-age normal cost.
- For purposes of amortizing unfunded accrued liabilities, payroll was assumed to increase 4% per year.

Supplemental valuations do **not** predict the result of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of the **change only** on future valuations without comment on the complete end result of the future valuations.

Data included in the valuation is summarized below:

	Retired Before 7/1/1992		**Retired Before 7/1/2005**	
Division	**Number**	**Annual Pensions ($ millions)**	**Number**	**Annual Pensions ($ millions)**
- General City	4,310	$45.7	7,592	$ 107.1
- D-DOT	935	9.9	1,623	21.3
- Water	655	7.5	1,643	27.8
- Sewage	147	1.7	235	3.5
- Library	116	1.4	303	5.5
- Total	6,163	$66.2	11,396	$165.2

City of Detroit General Retirement System
Proposed Pension Increase for all Retirees and Beneficiaries Proposal 1

Base: The minimum pension benefit at retirement is equal to $360 times the first 10 years of service plus $120 times years of service over 10 years.

Proposal 1: Increase the minimum annual pension at retirement to $360 times all years of service.

Valuation Results

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	$23,510,480	$6,080,006	$3,837,020	$389,252	$569,392	$34,386,150
• 15 year amortization of liability increase						
- % of covered payroll	0.93%	1.02%	0.60%	0.08%	0.34%	0.78%
- 1st year dollars based on valuation payroll	$ 2,074,589	$ 535,774	$ 339,444	$ 34,771	$ 50,846	$ 3,035,424

Comments

- It was assumed that pensions upon which future increases are based **would also** change. If that is not the case, the increase in accrued liabilities based on a 15-year amortization would be 0.68% of pay rather than 0.78% of pay.
- The cost of a larger or smaller minimum benefit based upon service over 10 years would be approximately proportional to the results shown above.

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92
RETIREES AND BENEFICIARIES AND INACTIVE DEFERRED MEMBERS
PROPOSAL 2

Base: Pensions are based on a pension multiplier graded by service as follows:

1.5% for first 10 years of service
1.63% for service in excess of 10 years

Proposal 2: Effective 7/1/2007, increase the multiplier for years of service over 10 for pre-July 1, 1992 retirees by 0.07%.

VALUATION RESULTS

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	\$8,018,783	\$1,693,954	\$1,366,132	\$296,946	\$227,755	\$11,603,570
• 15 year amortization of liability increase						
- % of covered payroll	0.32%	0.29%	0.21%	0.06%	0.13%	0.26%
- 1st year dollars based on valuation payroll	\$ 713,837	\$ 152,328	\$ 118,805	\$ 26,079	\$ 19,441	\$ 1,030,490

COMMENTS

- It was assumed that base pensions upon which future increases are based would **not** change.
- Increases in the multiplier higher or lower than .07% for service in excess of 10 years would be proportional to the results shown above.